

**CITY OF NEWHALL, IOWA**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**ON THE STATUS OF PERIODIC EXAMINATION**  
**FINDINGS AND RECOMMENDATIONS**  
**FOR THE PERIOD**  
**DECEMBER 1, 2015 THROUGH MAY 31, 2016**

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## Officials

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Name	Title	Term Expires
<b>(Before January, 2016)</b>		
<b>Elected Officials</b>		
Jan Mattson	Mayor	December 31, 2015
William Much	Council Member	December 31, 2015
Doug Rinderknecht	Council Member	December 31, 2015
Gerald Gessner	Council Member	December 31, 2015
Ruby Carolan	Council Member	December 31, 2015
Skylar Childers	Council Member	December 31, 2015
<b>Appointed Officials</b>		
Keri Touro	City Clerk	Indefinite
<b>(After January, 2016)</b>		
<b>Elected Officials</b>		
Jan Mattson	Mayor	December 31, 2017
William Much	Council Member	December 31, 2017
Doug Boddicker	Council Member	December 31, 2017
Doug Rinderknecht	Council Member	December 31, 2017
Gerald Gessner	Council Member	December 31, 2017
Ruby Carolan	Council Member	December 31, 2017
<b>Appointed Officials</b>		
Keri Touro	City Clerk	Indefinite

## **Independent Accountant's Report on the Status of Periodic Examination Findings and Recommendations**

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To the Honorable Mayor and  
Members of the City Council  
City of Newhall, Iowa

Hogan - Hansen, P.C. issued a Periodic Examination Report dated September 15, 2014 on the City of Newhall, Iowa, covering the period July 1, 2013 through June 30, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated September 15, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate that the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Newhall and other parties to whom the City of Newhall may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Newhall during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
August 22, 2016

## **Status of Periodic Examination Findings and Recommendations**

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## Status of Periodic Examination Findings and Recommendations

### Findings Reported in the Periodic Examination Report Dated September 15, 2014:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that incompatible duties are being performed by the same person.

Recommendation - We realize that segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

**Current Status - Not corrected. The recommendation is repeated.**

- (B) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

Recommendation - The City should obtain and retain images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.

**Current Status - Corrected. The City receives images of both the front and back of canceled checks as required by Chapter 554D.114 of the Code of Iowa.**

- (C) Payroll - One timesheet selected for testing did not include evidence of supervisory review. Additionally, the wage of one employee tested was not approved by the City Council, as required. We also noted inconsistency in the determination of overtime hours. We noted an employee had overtime calculated based on hours worked more than eight hours a day for one check and based on hours worked more than 40 hours a week for another check.

Recommendation - All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. Additionally, procedures should be established to ensure that approved payroll rates are entered and reviewed by an independent person, with the approval being documented. Furthermore, we recommend that the City Council review procedures for calculating overtime hours and update policies accordingly.

**Current Status - Partially corrected. All timesheets tested had evidence of proper review and approval. However, the wage for one employee tested was not approved by the City Council, as required. The number of overtime hours were calculated in accordance with the City's overtime policy, but the overtime rate was inconsistent and at times did not agree to the approved rate per the overtime policy. The City should establish procedures to ensure that approved payroll rates are entered and reviewed by an independent person, with the approval being documented. Furthermore, we recommend that the City Council review procedures for determining overtime rates and update policies accordingly.**

- (D) City Council Minutes - Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting and include total disbursements from each fund and a summary of receipts. Proof of publication for two of the four meetings selected for testing could not be located. In addition, these two meetings did not include total disbursements from each fund or a summary of receipts.

## Status of Periodic Examination Findings and Recommendations

Recommendation - The City should comply with the Code of Iowa and publish City Council minutes within 15 days of each meeting, as required. The published minutes should include total disbursements by fund and a summary of receipts, as required.

**Current Status - Not corrected. The recommendation is repeated.**

- (E) Certified Budget - Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the general government, debt service and business-type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

**Current Status - Not corrected. Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted for the public safety and culture and recreation functions. The recommendation is repeated.**

- (F) Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Benton Community Post Prom	Donation for high school post prom party	\$ 50

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

**Current Status - Corrected. All disbursements tested appeared to meet the requirements of public purpose.**

- (G) City Council Disbursement Approval - Documentation was not available showing City Council approval for 3 of the 30 disbursements tested.

Recommendation - All disbursements should be approved by City Council and documentation of City Council approval should be retained.

**Current Status - Corrected. All disbursements tested were properly approved by City Council, as documented in the City Council minutes.**

## Status of Periodic Examination Findings and Recommendations

- (H) Supporting Documentation - Supporting documentation was not available to support two disbursements tested in the amounts of \$67.40 and \$30.77.

Recommendation - The City should maintain supporting documentation for all disbursements.

**Current Status - Corrected. All disbursements tested were traced to proper supporting documentation.**

- (I) Forms 941, W-2 and W-3 - Copies of the Forms W-2 and W-3, the third quarter 2013 Form 941 and fourth quarter 2013 Form 941 retained by the City were not signed and dated. Therefore, we were unable to determine if they were timely filed. The City was unable to locate the first quarter 2014 Form 941 and indicated that the second quarter Form 941 was not completed by the July 31, 2014 deadline.

Recommendation - The City should ensure such forms are filed timely in the future and retain copies of all filed Forms 941, W-2 and W-3, which are signed and dated.

**Current Status - Partially corrected. Quarterly Form 941 was filed timely for the two quarters reviewed, 4th quarter of 2015 and 1st quarter of 2016. Copies of Forms W-2 and W-3 retained by the City were not signed and dated; therefore, we were unable to determine if they were timely filed. The City should ensure that Forms W-2 and W-3 are filed timely in the future and retain signed and dated copies of all forms.**

- (J) Petty Cash - Documentation supporting payments to replenish petty cash initially was not available. Documentation for all but four payments was subsequently provided.

Recommendation - Documentation supporting all petty cash replenishments should be retained by the City.

**Current Status - Corrected. All payments made to replenish petty cash during the timeframe of the engagement were traced to proper supporting documentation.**

- (K) Bank Reconciliations - The cash and investment balances in the City's general ledger were reconciled to bank and investment account balances throughout the year. However, for the two months reviewed, bank and book balances did not properly reconcile. Variances of \$17,381.50 and \$184.50 were not resolved.

Recommendation - The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and any variances are reviewed and resolved timely.

**Current Status - Not corrected. For the timeframe of the engagement, cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances monthly. The general ledger balance for the five bank accounts was \$1,257,431 while the total of the five account reconciliations was \$1,137,161. As a result, a variance of \$120,270 existed as of May 31, 2016 and has not been subsequently resolved. The bank cash report included numerous deposits and tax payments over a year old which did not appear to be correct. The recommendation is repeated.**



## Status of Periodic Examination Findings and Recommendations

- (L) Water Revenue Bonds and Notes - The City's 2002 water revenue bond and 2004 water revenue note resolutions require repayment solely from the net receipts of the Enterprise, Water Fund and state the debt repayments are not payable in any manner by taxation. The City is required to establish a water sinking account and make sufficient monthly transfers to this account from the Enterprise, Water Fund for making the required debt payments. While the City has established the water sinking account, there were no transfers recorded to the water sinking account. The December interest payment was recorded in the Sewer Fund and the June principal and interest payment was recorded in the Debt Service Fund.

Further, the 2002 water revenue bond requires the City to maintain user rates at a level to ensure net receipts are equal to at least 110% of the principal and interest due in that year. Since the City's Enterprise, Water Fund is in a deficit position, the City has not maintained sufficient user rates.

Recommendation - The City should make a correcting transfer from the water sinking account to the Debt Service and Sewer Funds to reimburse those funds for water debt service payments made in error. The City should transfer from the Enterprise, Water Fund to the water sinking account monthly and future bond and note payments should be made from the sinking account, as required.

The City should increase user rates or reduce expenses to ensure that net receipts equal at least 110% of the principal and interest due each year.

**Current Status - Not corrected. The recommendation is repeated.**

- (M) Tax Increment Financing - Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified by the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City had a cash balance of \$161,151 in the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund) as of June 30, 2014. However, the City had no outstanding TIF obligations as of that date. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

The City submitted the Urban Renewal Annual Report required by Chapter 384.22 of the Code of Iowa to the Iowa Department of Management; however, it was filed after the December 1, 2013 deadline.

Recommendation - The City should consult legal counsel to determine the disposition of the excess monies in the Special Revenue, Urban Renewal Tax Increment Fund. If the City has no further tax increment financing debt, the \$161,151 should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa. The City should submit the Urban Renewal Annual Report timely.

## Status of Periodic Examination Findings and Recommendations

**Current Status** - Not corrected. The City had a cash balance of \$161,151 in the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund) as of June 30, 2015, but no outstanding TIF obligations as of that date. Additionally, the City submitted the Urban Renewal Annual Report as required by Chapter 384.22; however, it was filed after the December 1, 2015 deadline. The recommendation is repeated.

- (N) **Financial Condition** - As of June 30, 2014, the City had deficit balances of \$36,703 and \$129,119 in the Enterprise, Water and Road Use Tax Funds, respectively.

**Recommendation** - The City should investigate alternatives to eliminate these deficits to return the funds to a sound financial position.

**Current Status** - Not corrected. As of June 30, 2015, the City had deficit balances in Library, Road Use Tax, Fire, Water and Sewer Funds. The recommendation is repeated.

- (O) **Transfer and Journal Entry Documentation** - Supporting documentation was not maintained for interfund transfers and journal entries. Additionally, transfers and journal entries are not approved by anyone before being recorded to the general ledger.

**Recommendation** - Supporting documentation should be maintained which substantiates all interfund transfers and journal entries. Additionally, all interfund transfers should be evidenced by approval in the minutes or budget, as applicable. Journal entries should be approved by an independent person and evidence of the approval should be documented.

**Current Status** - Not corrected. The recommendation is repeated.

- (P) **Computer Software** - The following weakness in the City's computer software was noted:

The City changed computer software during the June 30, 2014 fiscal year. According to City personnel, the company that was hired to install the software entered all prior year fund balances and grouped all transactions for the period July 1, 2013 through September 30, 2013 into a single entry. Many transactions were entered incorrectly causing the General Fund, Road Use Tax Fund, Local Option Sales Tax Fund, Debt Service Fund, Water Fund and Sewer Fund to have incorrect ending fund balances.

**Recommendation** - The City should review all transactions that were entered by the computer software company and variances should be investigated. Consultation with the software provider is suggested, if needed, to understand how the transactions were entered.

**Current Status** - Not corrected. The City has ongoing variances between bank and book balances, as well as ending fund balances. The recommendation is repeated. Also refer to recommendations K and U.

- (Q) **Receipts** - Certain receipts that were tested were not recorded in the proper fund, and we noted that the ACH utility deposit for the month tested was not recorded in the general ledger.

**Recommendation** - The City should establish procedures to ensure receipts are recorded properly and to the proper fund.

**Current Status** - Not corrected. The recommendation is repeated.

## Status of Periodic Examination Findings and Recommendations

- (R) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year, and a delinquent account listing was not prepared monthly.

Recommendation - A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations, document their review by signing or initialing and dating the reconciliation and monitor delinquent accounts.

**Current Status - Not corrected. The recommendation is repeated.**

- (S) Local Option Sales and Services Tax - The City was unable to provide the most recent local option sales and services tax referendum authorizing the collection of the tax; therefore, we were not able to test that the tax receipts were spent in accordance with the provisions of the referendum.

Recommendation - The City should obtain a copy of the referendum from the County Auditor and maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

**Current Status - Partially corrected. The City was able to provide the most recent local option sales and services tax referendum authorizing the collection of the tax. However, the City did not maintain sufficient documentation to determine the tax receipts were spent in accordance with the provisions of the referendum.**

- (T) Employee Benefits Levy - Tax collections were properly receipted into the Special Revenue, Employee Benefits Fund. However, there were no disbursements recorded in this fund or transfers to reimburse the General Fund or the Special Revenue, Road Use Tax Fund for employee benefits related to employee salaries paid from those funds.

Recommendation - The City should determine the amount of employee benefits attributable to General Fund and Special Revenue, Road Use Tax Fund employees and reimburse those funds through transfers from the Special Revenue, Employee Benefits Fund.

**Current Status - Not corrected. The recommendation is repeated.**

### Additional Findings as a Result of Follow-up Procedures:

- (U) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report (AFR) contain a "summary of the preceding fiscal year of all collections and receipts, all accounts due to the city, and all expenditures..." The City's fiscal year 2015 AFR reported receipts, disbursements and fund balances which did not agree with the City's records. In addition, the AFR was not filed by December 1, as required.

Recommendation - The City should establish procedures to ensure that the AFR reconciles to the general ledger and bank balances. In addition, the City should ensure that future Annual Financial Reports are filed by December 1.